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C E N T R A L I N T E L L I G E N C E A G E N C Y

16 December 1954

MEMORANDUM TO THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: Japanese Trade with Communist China¹

1. Although the Japanese had developed a substantial trade with mainland China during the 1920's and early 30's, it was only after the political seizure of Manchuria in 1937 that mainland China became a major Japanese trading area--in 1939 it became Japan's most important trading area. (See Table 1.) Manchuria and subsequently much of China became protected Japanese markets. By developing Chinese and particularly Manchurian economic resources the Japanese provided themselves with an outlet for capital goods exports, and, through increased indigenous purchasing power, a market for consumer goods. In addition they obtained a secure source for many of Japan's essential raw material requirements, particularly coal, pig iron, iron ore, tin, salt, and soya beans and oil cake. (See Table 2.)

¹ The memorandum has been coordinated at the working level with OIR, ORR, and OCI; these representatives concur with the substance of this memorandum.

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TABLE 1

JAPANESE TRADE WITH MAINLAND CHINA
AS PERCENT OF TOTAL TRADE¹

YEAR	EXPORTS AS % OF TOTAL EXPORTS		IMPORTS AS % OF TOTAL IMPORTS	
	ALL CHINA INCLUDING MANCHURIA AND KWANTUNG	MANCHURIA AND KWANTUNG ²	ALL CHINA INCLUDING MANCHURIA AND KWANTUNG	MANCHURIA
1926	22		14	
1930	19		14	
1936	18	14	11	7
1937	19	15	9	6
1938	30	22	15	11
1939	34	25	16	12
1940	35	22	16	9
1941	38	24	21	10
1942	43	28	42	18
1943	43	26	45	13
1944	86	49	88	24

¹ Total trade includes Japanese trade with Korea and Taiwan in pre-1945 figures.

² Trade recorded for Kwantung for the most part originated in or was destined for Manchuria and North China.

~~SECRET~~TABLE 2JAPANESE IMPORTS FROM MAINLAND CHINA
BY MAJOR COMMODITIES

<u>Commodity</u>	1934-1936 (average)		1939	
	<u>Value (Mil. US \$)</u>	<u>% of Total Import of Commodity</u>	<u>Value (Mil. US \$)</u>	<u>% of Total Import of Commodity</u>
Foodstuffs	19	8.6	33	16.4
Textile Raw Mat.	8	3.	21	13.1
Fertilizer Mat. (incl. oil cake)	13	35.	30	56.2
Iron Ore	3	27.		14.0 ¹²
Pig Iron (1935-36 ave.)	5	32.4		38.0 ¹²
Coal	11	64.	17	67.7
Salt	2	40.	5	41.9

1/ Adjusted to include Japan's trade with Korea and Formosa.2/ Estimated on a volume basis.~~SECRET~~

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2. Until the war years 1941-45, when Japan was largely cut off from other sources of supply, mainland China was more important to Japan as a market than as a source of imports. Japanese exports to mainland China of textiles, steel, and capital equipment were only partially paid for by purchases of essential raw material and foodstuffs. This export surplus was balanced primarily by Japanese investment in Manchuria and in other areas of China.

3. Japanese postwar trade with mainland China has been relatively insignificant. (See Table 3.) Although it had revived somewhat by 1950, Sino-Japanese trade was almost completely stopped by the restrictions following the outbreak of the Korean war. Following the armistice in 1953 it began to revive as controls were slightly relaxed. Unlike the prewar period, recent Japanese trade with mainland China has shown an import surplus.

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TABLE 3
JAPANESE POSTWAR TRADE

Year	Japanese Exports to Mainland			Japanese Imports from Mainland		
	Total Exports (million US \$)	China including Manchuria	Percent of Total	Total Imports (million US \$)	China including Manchuria	Percent of Total
1950	820	20.	2.4	974	40	4.1
1951	1355	5.	0.4	2047	22	1.1
1952	1273	.6	neg	2028	15	0.7
1953	1275	4.5	0.4	2410	30	1.2
1954 ^{1/}	1570	18.	1.1	2360	42	1.8

^{1/} Estimated totals.

4. The future level of Sino-Japanese trade will be determined primarily by political factors, and secondarily by economic factors. The principal political factors will be: (a) the extent to which Communist China, in conjunction with the USSR, continues to pursue a policy of Bloc autarky, deliberately minimizing trade with non-Communist areas; (b) the extent to which the Free world will maintain controls on trade with Communist China; and (c) the extent to which trade will be used by the Bloc as a weapon of economic and political warfare. The principal economic factors are: (a) the availabilities of Communist Chinese exports of coal, iron ore, salt, soy beans, and to a lesser extent rice and other grains, and (b) the availabilities of Japanese exports of capital equipment which both meet

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Chinese specifications and are competitive with Free world and Bloc prices.

5. In attempting to determine the possible magnitude of Sino-Japanese trade expansion within existing controls, the Japanese, assuming Communist Chinese agreement, estimate that this trade could probably be raised to some \$70 million each way per year by 1957. The Japanese Ministry of International Trade and Industry has estimated that Japan, at this level of trade, might import from Communist China the following quantities of certain essential commodities:

	<u>Quantities Imported</u>	
	<u>1957</u>	<u>1953</u>
Rice	100,000 m. tons	(none)
Soy Beans	100,000	16,000 m. tons
Coal	800,000	137,000
Iron Ore	500,000	38,000
Salt	300,000	197,000

6. We believe that, under the assumptions stated in the preceding paragraph, Sino-Japanese trade could probably be increased to approximately \$70 million each way per year by 1957, but that the quantities of rice and soy bean imports projected by the Japanese Ministry might not actually be available. Chinese export of such quantities of those commodities to Japan might conflict with increasing

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domestic requirements and with export commitments to the Soviet Bloc. In any case, Japanese imports from Communist China at this projected level of trade, although almost two and a half times the value of 1953 imports from mainland China, would still be only 3.5 percent of the projected total of Japanese imports in 1957.

7. If controls on Chinese Communist trade were lowered to the level now applied against other Bloc countries and if Communist China desired substantially to increase trade with Japan, we believe that by 1957 Sino-Japanese trade could probably be raised to at least \$100 million each way. It might even reach \$150 million each way, but we believe this would require some diversion of Communist Chinese trade from other export markets.

8. The estimate that the \$100 million level could be reached is based primarily upon the Communist Chinese capability to export coal and iron ore in greatly increased quantities--a capability which we believe they can exercise without significantly modifying their present trade commitments to the Bloc. It is probable that the large iron ore deposits on the island of Hainan could be exploited without great expenditure on the part of the Chinese. We believe that the iron ore presently produced from Hainan is not included in Communist

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China's internal steel program, but is earmarked for export. In these circumstances, we believe that Communist China could probably increase its production on Hainan sufficiently to provide for the export of about 1.5 million tons of iron ore to Japan, a quantity equal to about one third of Japan's 1953 total iron ore imports of 4.3 million tons. We believe that Communist China could supply a major portion of the coal imported by Japan (some 3.5 million tons in 1953) with relatively small investment. It is estimated that Chinese coal production will be approximately 100 million tons by 1957, a quantity which appears to be greater than that required for internal consumption and export to the Soviet Far East.

9. Even if Sino-Japanese trade under COCOM levels of controls were to reach \$150 million by 1957 it would still constitute only about 7 percent of Japan's estimated total foreign trade for that year. Indeed, even if all controls on trade with Communist China were eliminated, we believe it very unlikely that trade relations between mainland China and Japan would regain their pre-war significance. There has been a fundamental change in the Chinese economic situation since the establishment of the Communist regime. It now produces practically all of its own textiles and much of its steel. It is now firmly committed to a program of industrialization and of

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integrating its economy with that of the Bloc. China's export commodities are now committed to the needs of its own industries and to those of its Bloc partners. As for Japan, it no longer possesses the political control over Manchuria which permitted it to develop that area as an integral part of its own economy. For these reasons we believe that as long as Communist China remains in the Bloc it is unlikely that Japanese trade with Communist China will become a substantial proportion of Japan's total trade.

FOR THE BOARD OF NATIONAL ESTIMATES:

SHERMAN KENT

NOTE: The economic data in this memorandum is based on official Japanese sources, or as these sources have appeared in ORR and OIR publications, or in despatches from US Embassy Tokyo.

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C E N T R A L I N T E L L I G E N C E A G E N C Y

14 December 1954

MEMORANDUM TO THE DIRECTOR OF CENTRAL INTELLIGENCE (Draft)

SUBJECT: Japanese Trade with Communist China^{1/}

1. The Japanese developed a substantial trade with mainland China during the 1920's and early 30's. (See Table 1.) However, it was only after Japan seized political control of Manchuria in 1937 that mainland China became the most important Japanese trading area. Manchuria and subsequently much of China became protected Japanese markets. As the Japanese developed the economic resources particularly of Manchuria, they provided an outlet for capital goods exports, and, through increased indigenous purchasing power, a market for consumer goods. In addition they developed a secure source for many of Japan's essential raw material imports, particularly coal, pig iron, iron ore, tin, salt, and soya beans and oil cake. (See Table 2.)

^{1/} The memorandum has been coordinated at the working level with OIR, ORR, and OCI; these representatives concur with the substance of this memorandum.

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~~SECRET~~TABLE 1JAPANESE TRADE WITH MAINLAND CHINA^{1/}PERCENT OF TOTAL TRADE^{2/}

YEAR	EXPORTS		IMPORTS	
	ALL CHINA INCLUDING MANCHURIA AND KWANTUNG	MANCHURIA AND KWANTUNG ^{3/}	ALL CHINA INCLUDING MANCHURIA AND KWANTUNG	MANCHURIA AND KWANTUNG
1926	22		14	
1930	19		14	
1936	18	14	11	7
1937	19	15	9	6
1938	30	22	15	11
1939	34	25	16	12
1940	35	22	16	9
1941	38	24	21	10
1942	43	28	42	18
1943	43	26	45	13
1944	86	49	88	24
1950	2		4	

^{1/} Ministry of Finance, Customs Bureau, Japanese Government - US Embassy Tokyo, Despatch No. 237, 31 July 1953.^{2/} Total trade includes Japanese domestic trade with Korea and Taiwan in pre-1945 figures.^{3/} Trade recorded for Kwantung for the most part originated in or was destined for Manchuria and North China.

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JAPANESE IMPORTS BY MAJOR COMMODITIES^{1/ 2/}
(1934-1936 Average)

Commodity	Amount (millions US \$)	% of total	Total Imports	Imports from China and Manchuria	% of total Import of Commodity
			Amount (million US \$)	Imports from China and Manchuria	
Foodstuffs	222.	23	30		14
Textile Raw Materials	289.	30	7		3
Drugs	39	4			
Fertilizer Materials	24	3	11 (oil cake only)		45
Iron Ore	11	1	3		27
Coal	17	2	11.		64
Salt	<u>5</u>	<u>0.5</u>	<u>2.</u>		<u>40</u>
Total	607	63.5	64.		
Others	344	36.5	38.		
Total Imports	951	100.	102		

1/ Source: The Japanese Economy: Recent Developments and Future Prospects.
OIR Report No. 6063, 21 January 1953.

2/ Adjusted to include Japan's trade with Korea and Formosa.

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2. Until the war years 1941-45, when Japan was largely cut off from other sources for its imports, mainland China was more important as a market than as a source of Japan's imports. Japanese prewar exports/of textiles, steel, and capital equipment were only partially paid for by Japanese purchases of coking coal, iron ore, pig iron, tin, salt, soya beans, and, of lesser importance, grains, raw cotton, and raw wool. This export surplus was supported primarily by Japanese investment in Manchuria and in other areas of China.

3. Japanese postwar trade with mainland China has remained relatively insignificant. (See Table 3) Although this trade had revived somewhat by 1950, it was almost completely stopped as a result of the restrictions placed on trade with China following the outbreak of the Korean war. Japan's trade with Communist China again began to revive in 1953 following the armistice and some relaxation of the controls on trade with Communist China. Unlike the prewar period, Japanese trade with mainland China has shown an import surplus.

TABLE 3
JAPANESE POSTWAR TRADE

<u>year</u>	<u>Total Exports</u> (million US \$)	<u>Japanese Export from Mainland China</u>	<u>Percent of total</u>	<u>Total Imports</u>	<u>Japanese Import from Mainland China</u> (million US \$)	<u>Percent of total</u>
1950	620.	20.	2.4	974	40.	4.1
1951	1355.	5.	3.7	2047	22	1.1
1952	1273	.6	neg	2028	15	.7
1953	1275	4.5	.0	2410	30	1.2
<u>1954/</u>		18.			42	

Source: OIR Contribution to NIE 41-54, "Probable Developments in Japan," 3 June 1954.

1/ Estimated totals.

4. The future level of Sino-Japanese trade will be determined in the first instance by political factors, and secondarily by economic factors. The principal political factors are: a) Free World controls on trade with Communist China; b) a Sino-Soviet decision involving Bloc requirements of Chinese exports, and Bloc capabilities to furnish Chinese import requirements; and c) the extent to which Communist Chinese trade will be used as a weapon of economic and political warfare. The principal economic factors are: a) the availabilities of Communist Chinese exports of coal, iron ore, salt, soya beans, and to a lesser extent rice and other grains, and b) the availabilities of Japanese exports of capital equipment which both meet Chinese specifications and are competitive with world prices.

5. We believe that with existing CHINCOM controls, Sino-Japanese trade could probably be raised to some \$70 million each way per year by 1957, providing Japan could obtain Communist China's agreement to increased trade. The Japanese Ministry of International Trade and Industry has estimated that Japan, at this level of trade, could import from Communist China the following quantities of certain essential commodities:

	<u>Quantities imported</u>	
	<u>1957</u>	<u>1953</u>
Rice	100,000 m. tons	
Soy beans	100,000	16,000 m. tons
Coal	800,000	137,000
Iron Ore	500,000	38,000
Salt	300,000	197,000

At this level of trade, Japanese imports from Communist China would be about 2.4 times the value of 1953 imports from mainland China. However, imports of this magnitude would be but 3.5 percent of the projected total Japanese imports of some \$2 billion in 1957. Communist Chinese reaction to such a development is not yet known. Moreover, ORR and OIR have doubts concerning the projected quantities of rice and soy bean imports. Such quantities may not be available without a conflict with future foodstuff export commitments to the Soviet Bloc and with the increasing requirements for domestic consumption of foodstuffs.

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6. Should there be a relaxation of CHINCOM controls to the COCOM level and should Communist China desire substantially to increase trade with Japan, we believe that by 1957 Sino-Japanese trade could probably be raised to at least \$100 million each way. It might even reach \$150 million each way by 1957 but this would require some diversion of Communist Chinese trade from other export markets. This estimate is based primarily on the Communist Chinese capability to export coal and iron ore in greatly increased quantities without any significant modifications of their present bloc commitments. It is probable that the major iron ore deposits on the island of Hailan, estimated to be comparable to the Labrador deposits, could be exploited without great expenditure on the part of the Chinese. To make this iron ore available, rehabilitation of a 50 mile narrow gauge railroad would have to be completed and port facilities improved. It is believed that the iron ore presently produced from Hainan is not included in Communist China's internal steel program

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but rather is earmarked for export. Under these circumstances, Communist China could probably export about 1.5 million tons of iron ore to Japan, a quantity equal to about 1/3 of Japan's 1953 total iron ore imports of 4.3 million tons. We believe that Communist China could supply a major portion of the coal imported by Japan -- some 3.5 million tons of coal was imported in 1953 -- with relatively small investment. It is estimated that Chinese coal production will be approximately 100 million tons by 1957, a quantity which appears to be greater than that required for internal consumption and export to the Soviet Far East.

7. However, even under the most favorable circumstances we do not believe that mainland China will, in the foreseeable future, be, as it was in 1939, a market for 34 percent of total Japanese exports and the source of 16 percent of Japanese imports. Almost 60 percent of Japan's present imports are made up of commodities which Communist China could not without major revisions in its economic program supply in significant quantities: foodstuffs, raw cotton, and raw wool. Moreover Communist China could not supply such other imports as rubber, machinery and drugs. Moreover there has been a change in Communist China's import requirements. It now produces practically all of its own textiles, much of its steel, and some of its own machine tools. Even if it should, as para. 6, reach \$150, this would be only about 7% of Japan's projected trade for 1957. We further believe that as long as Communist China remains in the Bloc, Japanese trade with Communist China will be but a small fraction of Japan's total trade.

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